4:Grajdanzev--53-54 S-4 (no date) 1942 Formosans -1-2
116, 243, 435, 458, 464, 177.43 Japan
636.43

"One of the important reasons for the stagnation of rice exports from Taiwan to Japan before 1922 was the unpalatable character of Taiwan rice. Through the efforts of the agricultural stations, however, a new kind of rice--horai rice--was introduced, which was acceptable to the Japanese consumer and had a higher yield than the native varieties. It commanded a lower price than the rice produced in Japan but a higher one than the local varieties. As may be seen from the preceding table [See p. 52, category 116--analyst] the average price per koku rose from ¥7.8 in 1915 to ¥22.5 in 1920. The latter year was one of post-War inflation, but 1925, a more normal year, brought an even higher price. On the basis of this rise in price and increase in acreage one might jump to the conclusion that the island farmers were much better off. Some of this increased wealth they would use to purchase Japanese manufactured goods and some to increase their own consumption of rice, so that both parties--the Japanese and the Chinese--would gain.

Japanese economists (1) share this view. In their opinion the opening of the Japanese

1. Especially Takahashi. He at one time was considered 'the brains of the Kwantung Army' and his works are widely known in Japan.

market to Taiwan rice brought a rise in the price of Taiwanese rice, especially after

the depression of 1929-32. The efforts of the government to raise prices, they say, were dictated by the difficult situation of the Japanese farmers. The level of rice prices in Japan was dictated by the costs of the Japanese farmers, and these prices brought windfall profits for the Taiwan farmers. It brought a rise in rice prices in Taiwan, increased wages and unwillingness on the part of some farmers to become workers in industry just because of these prosperous conditions. Industrialization of the island (which in the opinion of Takahashi is inseparable [54] from low wages) was retarded. Now the only way out is to introduce a rice monopoly in Taiwan in order to depress the price, using the resulting difference in Japanese and Taiwanese prices for budgetary purposes (2).

2. Takahashi, op. cit., pp. 73-87."

4:Grajdanzev--60-61 S-4 (no date) 1942 Formosans-1-2
116, 249, 433, 458, 654, 177.24 Japan
636.24

"There can be no doubt as to the importance of sugar cane cultivation and of the sugar industry in Taiwan and the degree of success achieved by the Japanese government and Chinese cultivators.

However, a close examination of the table [See page 59, category 116--analyst] reveals some interesting features. It was pointed out how much effort was expended by the officials on the improvement of sugar cane culture. But in spite of all the efforts of the government and of the experimental stations the yield per ko did not show any signs of improvement during the first fifteen years. If the development was as steady as is officially described, why then was the increase of production up to 1921 taking place exclusively as a result of the increase in the planted area?

Further, the increase in sugar production may also come through the increase of sugar content in the juice of the sugar cane. It is interesting to note that in this respect too, little, if any, improvement is noticed up to 1922, but that after that year the sugar content rose from 9.5 per cent in 1922 to 13.2 per cent in 1935 and in this year was considerably higher than in Java or Cuba (12.3 and 11.6 per cent respectively). Finally, the table shows that after the peak of production (and area) was reached in 1917-18, production fell, then rose slowly up to 1928-29, fell sharply by almost thirty per cent and then began to rise again.

The explanation of these fluctuations is that the Taiwan sugar industry (and, as a consequence, also the cultivation of sugar cane) passed through several crises of the most severe character. 'Overproduction' is a word familiar to this industry, and to the planters also. Of course, it must be emphasized that this 'overproduction' is of a special character, because the consumption of sugar in Japan is relatively low and, though physically the demand of the population for sugar [61] is not satisfied, there is insufficient purchasing power available to buy it.

All this is very important for the problem in hand. The government's efforts were probably as great from 1900 to 1922 as afterward, subsidies were given more lavishly than later on, but the results in the first twenty years were rather meagre. In other words, the development was due not so much to the government's and the manufacturers' efforts as to some other factors inherent in the development of the economy of Taiwan and Japan."

4:Grajdanzev--101 S-4 (no date) 1942 Formosans
116, 433, 458, 477

"All this is mentioned here [see previous paragraphs--analyst] in order to remind readers that the development of Taiwan's sugar industry, as well as of industry in general, was not smooth and uninterrupted, but passed through booms, crises, depressions—phenomena well known from the history of other countries. Taiwan can now produce much more sugar than it actually does produce (as a comparison of figures for 1933 and 1939 indicates), but the small domestic market, combined with a desire to reap high monopoly profits, keeps production far below the level of capacity, while entrance into the international market for the protected Taiwan sugar is not easy. The manufacturers are organized into a cartel which regulates prices and production in order to avoid cut-throat competition and maintain monopoly profits."

"The banks enumerated above [see page 127 in category 116--analyst] are Japanese, and the only institutions in which the Chinese have some measure of influence are the credit cooperatives, which will be discussed later. The table below summarizes information on deposits of all financial institutions of Taiwan.

Growth of Deposits of Financial Institutions in Taiwan
(1,000,000 yen)

	1926	1928	1930	1932	1934	1935	1939
Banks	102.9	111.9	101.2	133.2	152.2	173.0	270.3
Post office	9.1	13.3	16.5	18.1	21.4	23.7	34.8*
Credit cooperatives	28.0	34.9	34.6	47.7	65.5	77.9	118.2†
Total	140.0	160.1	152.3	199.0	239.1	274.6	423.3*†

* Post-office savings deposits on Dec. 31, 1938.

†Of which rural credit cooperatives accounted for ¥87,230,000 on Dec. 31, 1938.

The amount of deposits in Taiwan has thus trebled in thirteen years. In order to judge whether this is a sign of a sharp improvement of the economic position of the islanders, it is necessary to know (1) whether the increase in deposits comes chiefly from Japanese or from Chinese sources, (2) whether the increase in deposits of the Chinese is a real

increase, or whether it only reflects a change of habit (it is evident that the transition from subsistence to money economy is bound up with the increase of deposits at the banks), (3) how far this increase may be ascribed to war-time inflation.

We do not have complete data on the distribution of deposits between Japanese and Chinese, but what is available throws some light on the problem.

Distribution of Deposits in Banks and Post Offices
(million yen)

	Banks		Post offices	
	Chinese	Japanese	Chinese	Japanese
1926	33.0	69.8	2.6	6.6
1935	51.2	121.7	4.9	18.8
1938	...	...	6.9	27.9 "

4:Grajdanzev--129-130 S-4 (no date) 1942 Formosans-1-2
116, 453, 458, 563

"Deposits in cooperatives belong chiefly to the Chinese, but no data are available either on the exact composition by nationality of the depositors or on their number. The table given above shows that between 1926 and 1935 the growth of Japanese banking and postal deposits was more rapid than that of the Chinese and that in 1935 about seventy-two per cent of all deposits in the banks and post offices belonged to the Japanese. But in order to see whether there is a real gain we should know the number of the depositors or the average deposit. We have such data only for the post offices.

Average Amount of Savings per Depositor in Post Offices
(in yen)

	1921	1929	1934	1938	
Japanese	33.3	51.0	146.5	89.5	(1937)*
Chinese	8.2	16.6	14.2	13.8	

* Data for the Japanese beginning with 1936 show a strange change: the number of depositors rises sharply without a corresponding increase in the total amount of the deposits. For 1938 the number of non-Chinese depositors is shown as 394,000, while the whole Japanese population in Taiwan is only 308,000. It may be that the increase of more than 100,000 Japanese depositors with a very small increase in deposits reflects the stationing of a larger number of troops in Taiwan.

Calculated from data given in Taiwan Jijo.

Comparison of the deposits of the Japanese and the Chinese shows (1) that the Japanese deposits are from seven to ten times larger on the average than the deposits of the Chinese; (2) that the average size of the Chinese deposits has not shown any increase since 1929, especially if we take the rise in prices into consideration; (3) that the absolute amount of Chinese deposits is so small that it hardly indicates any great prosperity. When the farmer buys fertilizers and sells a larger and larger part of his produce on the market, he will not keep his savings in the form of silver but will prefer to keep it in the bank where it is safer. This is, however, not necessarily a sign of economic improvement.

On the other hand, a comparison of the note issue and the index of wholesale prices suggests that a large part of the increase in deposits in the war years is purely illusory. If a [130] business man is compelled by the conditions obtaining in his business to have in his account a certain sum of money, then with the rise of wholesale prices he has to increase his deposits in order to be able to satisfy his needs to the same extent as before. But this again can hardly be considered as a sign of 'prosperity', at least for the society as a whole."

727 to 86,000 metric tons in 1945-46. The
433 Formosan farmer was faced with the "worst prospect in living memory," as one observer remarked.[8]

434 In spite of the seriousness of economic
178 conditions on Formosa, the Chinese government was able to make only limited progress in reconstruction following the restoration of the island to Chinese control. For one thing, the Nationalist Government was involved in a costly war with the Communists and faced with a huge rehabilitation program on the Mainland. Furthermore, without a surplus of exportable goods, China could not obtain the foreign exchange necessary to re-equip the damaged plants and restore agricultural production on Formosa. The island's economy continued to deteriorate until 1949, when Mainland China was overrun by the Communists and the National Government was withdrawn to Formosa.

458 The sudden influx of over one million
185 mainlanders and half a million soldiers further strained the resources of the island. Inflation was running wild and food was short. However, the removal of the national government to Formosa was not without benefit to the island.

8. H. Maclear Bates, Report from Formosa, New York, Dutton, 1952, p. 117.

185 First of all, the presence of President Chiang
458 Kai-shek strengthened the political stability of the island. Then the arrival of technical and experienced personnel and capital equipment from the Mainland greatly facilitated the island's economic rehabilitation. With the gold evacuated from the Central Bank of China at Shanghai, the Nationalist Government was able to institute currency reform. Steps were immediately taken to increase the production of food-stuff, and a program was initiated to relieve the Formosan farmers' burden of high rents and high taxes. Taxation was simplified by discontinuing numerous special levies. To insure the cultivator a fair share of his crop, a land reform program was undertaken. Land rents were cut from their previously usurious rate of about 60 per cent of the main crop to a maximum of 37.5 per cent. A limit was set on the ownership of tenanted land. Any land holding in excess of the stated limit was bought by the government and resold to the tenant.

648 In 1950 economic improvement quickened. At the outbreak of the Korean conflict, the United States government assigned the Seventh Fleet to patrol duty in the Formosa Strait. Fear of Communist invasion, which had been the underlying cause of the constant flight of capital, was dispelled. Public confidence was further enhanced by the revival of American economic assistance in June of the same

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459 It should be noted that price levels have risen 700 per cent and the amount of notes issued has increased 2,600 per cent. Similarly foreign exchange has not depreciated to the same extent as the increase of money in circulation. The official exchange rate[5] for US dollars has increased from NT$5 to NT$24.78; the market rate[6] for US dollars has increased from NT$7.82 on December 31, 1949 to NT$37.50 on November 6, 1955.

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652 The pressure of inflation on the economy of Formosa has been alleviated by a number of factors. The enormous growth in population and industrial expansion tend to absorb a part of the increased money supply. The government controls an abundant reserve of rice, wheat flour, and other essential goods, which may be used to stabilize prices. The depreciation of the external value of the currency has been partially offset by aid from the United States and the personal expenditure of United States advisory personnel in Formosa.

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5. The 1955 figure includes the bank exchange rate of NT$15.65 plus 20 per cent defense tax (NT$3.13) plus the certificate price of NT$6.00.

6. United Press dispatch, Taipei, Nov. 6, 1955.

However, these favorable factors may be of no help if the trend toward inflation continues unabated. The principal cause of continued inflation is government borrowing. Advances to the public treasury at the end of 1954 amounted to NT$1,138 million; the total note issue was only NT$1,043 million. Unless the Chinese government is able to drastically reduce its huge budgetary deficit by raising more revenue and cutting its expenditures, it will be difficult to control inflation, and unless the dangers of inflation are avoided, it will be impossible to achieve financial stability.